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January 23, 2004

Mr. Thomas M. Dorman  
Executive Director  
Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

RECEIVED

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COMMISSION

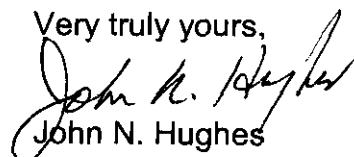
Re: Case No. 2003-00224

Dear Mr. Dorman:

Please file the attached responses to questions raised by the Staff at the recent conference. The information contained in this response is incorporated into and made a part of the District's Petition and supplements the information previously filed.

If there are any questions about this, please contact me.

Very truly yours,

  
John N. Hughes

Attorney for Northern  
Kentucky Water District

Attachments

### **What is the purpose of forming the proposed sub district?**

1. The purpose of any sub-district is to provide service to areas that otherwise could not be served due to various factors such as location in relation to existing facilities, excessive cost or low customer density. In evaluating the viability of the extension of service the District reviews need for the service, demand from the affected area, cost, funding sources and benefit to the system as a whole. If there is sufficient public demand and financing can be obtained within the limits of the estimated cost of the project, usually including state or federal loans and grants, the project is subject to approval. However, as part of the final determination of the feasibility of the project, the District reviews the overall hydraulic functioning of the area adjacent to the proposed sub district to determine if there are any additional system benefits that could be achieved from extending the facilities. For example, if the existing primary main serving the nearby area is undersized for future growth as shown in the District's Master Hydraulic Plan, it may be economically sound to upgrade that main as part of the sub district project to avoid a higher cost in the future to make that same upgrade.

As has been the District's practice in these types of extensions, a 12 inch main is generally installed, rather than an 8 inch to provide for increased demand and to allow for such services as fire protection. The District contributes the cost differential from the 8 to 12 inch mains because the benefit of the larger mains enhances the system rather than just service to the sub district.

The reference in Exhibit O, Project 73, Rice Rd./Klette Rd. sub district to strengthen and improve the local transmission and distributions system reflects that policy. Such language and purpose has been a part of the District's sub district extensions from the outset. For example, the sub district C project in Case 2002-00105 referred to upgrade costs for a main extension. The project description of Phase 5 of sub district D, Case No. 2000-00171, exhibit A of the Project

Description, has the same descriptive language as the project in this case, that is “strengthen and improve the system and local distribution system to meet population growth and commercial development needs”.

The purpose of any sub district project is to provide service to as many residents as possible at the most reasonable cost. If a benefit to the District’s hydraulic operations can be achieved at the same time in a more economical manner than otherwise might be possible, that is a benefit which should be pursued

**What is the total cost of the project?**

2. The total construction cost is approximately \$855,680. The bids have been received and the contractor has agreed to extend his prices past the bid expiration date of January 6, 2004 subject to increase cost premiums. It is crucial that the District limit the time the contractor can make claims for increase prices.

**What are the funding sources?**

3. The 8” construction costs will be funded by a Kentucky Infrastructure Authority Grant of \$229,680, which is applied only to sub district facilities; surcharge revenue from Sub K customers of \$375,634; and NKWD contribution of \$250,366 for design engineering and upgrade costs.

**Provide a revised tariff with the proposed sub district and proposed rate.**

4. A revised tariff with the boundary identified by street and the applicable surcharge of Sub District K is attached.

**Provide a map of the proposed sub district and surrounding sub districts.**

5. A map showing the area covered by this sub district and adjacent districts is attached, as is one copy of the detailed engineering drawings..

**Provide the number of households that could be served.**

6. There are approximately 48 households that could potentially be served by this project.

We have not taken applications for water service at this time.

**Provide a financial analysis of the project.**

7. A reconciliation of number of customers needed to recover debt service over the life of the project is attached.

**Explain why a 12 inch main is being installed.**

8. This proposed sub district was developed to extend water service to un-served streets that include Klette Road, Rice Road and Marshall Road. The District's general rate will pay for the upgrade from an 8" to 12" because of the hydraulic improvement benefit identified in the District's Master Hydraulic Plan. The existing Ryland Heights area is currently fed by a single eight inch water main which feeds over 200 existing customers. The proposed 12" feed from Klette Road will bring a second feed to the Ryland Heights area and will allow capacity for projected 2020 growth along Klette Road, Rice Road and adjacent Sub districts without additional costly improvements. See District's response dated June 18, 2003 Case No. 2000-00171, Phase 5, item 3. Typically an eight inch main is the smallest water main that the District installs except when there is no chance for future extension then the District allows the last 600' as 6". However, due to the hydraulic needs of the District and the anticipation of growth, it normally installs a 12 inch main to provide for growth. The District contributes the difference between the 8 and 12 inch main's cost.

The customers are charged only for the 8 inch main and the surcharge is calculated on the cost of the 8 inch main

**Is the surcharge included in the revenue requirement?**

9. The surcharge cost of this proposed sub district is not included in the rate case revenue requirement calculation.

**What is the current status of construction of the sub districts?**

10. Current status of all sub district construction projects:

RF is under construction and is about 40% complete

E is under construction and is about 40% complete

G - there is no action to date

# Northern Kentucky Water District

For NKWD Area Served

PSC No: 2

Original Sheet No. 1

Adopting PSC No: 1

Original Sheet No: 1

## Rates, Rules and Regulations

### SECTION II – RETAIL WATER RATES -

#### 1. Monthly Service Rate

First	1,500 cubic feet	\$2.64 per 100 cubic feet
Next	163,500 cubic feet	\$2.34 per 100 cubic feet
Over	165,000 cubic feet	\$2.19 per 100 cubic feet

Customers in Sub district A shall be assessed a monthly surcharge in the amount of	\$13.34
Customers in Sub district B shall be assessed a monthly surcharge in the amount of	\$20.78
Customers in Sub district C shall be assessed a monthly surcharge in the amount of	\$23.60
Customer in Sub district D shall be assessed a monthly surcharge in the amount of	\$30.00
Customers in Sub district E Shall be assessed a monthly surcharge in the amount of	\$30.00
- Bromley Crs. Spgs/St. Johns, Whitaker/McDonald, Fiskburg Road (KY 17 to 1.2mi),	
- Oliver Road – McCullum to Harris. Phase 2; Ky 177, Bethel Grove, Brandy Lane,	
- Vise's Train, Likcing Sta. Road. Phase 3; Ky 177, Kenton Station (Rector to Ky 177)	
- And Ishmael Road (Ky 177 to 1000ft).	
Customers in Sub district R shall be assessed a monthly surcharge in the amount of	\$19.13
Customers in Sub district RF shall be assessed a monthly surcharge in the amount of	\$30.00
- Ky 177 to Decoursey, Porter Raod, Tecumseh Lane, and Short Marshall.	
Customers in Subdistrict RL shall be assessed a monthly surcharge in the amount of	\$37.50
Customers of Subdistrict K shall be assessed a monthly surcharge in the amount of	\$30.00 N
- Rice Road and Klette Rd.	

#### 2. Quarterly Rates

First	4,500 cubic feet	\$2.64per 100 cubic feet
Next	490,500 cubic feet	\$2.34 per 100 cubic feet
Next	495,000 cubic feet	\$2.19 per 100 cubic feet

#### 3. Fixed Service Charge

<u>Meter Size</u>	<u>Monthly Service Charge</u>	<u>Quarterly Charge</u>
5/8 "	\$11.62	\$16.62
3/4 "	\$11.95	\$17.41
1 "	\$12.87	\$19.74
1 1/2 "	\$14.29	\$22.91
2 "	\$17.57	\$31.47
3 "	\$39.79	\$94.04
4 "	\$49.41	\$117.55
6 "	\$72.39	\$172.50
8 "	\$97.16	\$235.00
10 " and Larger	\$128.76	\$306.18

Date of Issue: August 28, 2003

Date Effective September 28, 2003

Issued By: Ronald Barrow

100 Aqua Drive, P.O. Box 220, Cold Spring, Kentucky 41076

Officer & Title: Ronald J. Barrow

Address

Vice President - Finance

**REVENUE REQUIREMENTS  
KLETTE, RICE AND MARSHALL ROADS  
WATER MAIN PROJECT**

**NORTHERN KENTUCKY WATER DISTRICT \$250,366.00 BAN (to become future bond issue reimbursed by the surcharge)**

**SURCHARGE PROJECTION**

- 48 projected users paying the \$30 monthly surcharge
- \$375,634.00 BAN (to become a future 25 year bond issue)
- Future Bond issue will be for 25 years at an estimated 4.5 percent interest rate

Estimated annual debt service including interest for future bond issue of \$375,634.00 is \$25,330.00

Projected surcharge annual contribution is  $48 * 12 * \$30 = \$17,280.00$

The Northern Kentucky Water District is anticipating 2 to 3 additional customers per year over the 25 year life of the loan. This growth has been factored into the revenue requirements to establish the \$30 surcharge. The revenue generated will equal \$375,876.00 based on this assumption.

# Klette Road Water Main Project

	STREET	DISTANCE MILES	TOTAL AVAIL. CUST	CUST. PER/MI	CONST.
1)	Klette Road-Ky 16 to Rice Road	1.16	25	12.93	
1a)	Cost to upgrade to 12 inch main	1.16	n/a	n/a	
2)	Klette Road - Rice to Coleman	1.21	7	3.47	
2a)	Cost to upgrade to 12 inch main	1.21	n/a	n/a	
3)	Rice Road #2-off Klette Road	0.45	16	21.33	
		<b>2.82</b>	<b>48</b>	<b>10.21</b>	<b>\$805,599</b>

## Cost Estimate:

Construction		\$805,599	
Engineering		\$42,581	
Interim Financing			
Legal		\$2,500	
Contingencies		\$5,000	
		<b>\$855,680</b>	<b>57.47</b>

## Source of Funds:

KIA Contribution		\$229,680	
NKWD Contribution (Bond Issue)	\$626,000		
Improvement Fund		\$250,366	
Financed thru surcharge		\$375,634	
		<b>\$855,680</b>	



This is a detailed black and white map of the Erlanger, Kentucky area. The map shows the following features:

- Communities and Areas:** Erlanger, Edgewood, Crestview Hills, Independence, Covington, Fairview, Ryland, Kenton, and Villa Hills.
- Parks:** Crescent Park, Laneside Park, and Tontona Lakes.
- Roads:** Major roads include I-275, I-75, US-41, and various local roads like Independence Road, Edgewood Road, and Crestview Hills Road.
- Water Bodies:** The Ohio River is shown on the right side of the map.
- Landmarks:** The Cincinnati skyline is visible in the distance on the right.